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Supreme Court, U. S.
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CHARLES ELMORE CROPLEY

IN THE

Supreme Court of the United States

OCTOBER TERM, 1945

TRANSPARENT-WRAP MACHINE CORPORATION,

Petitioner,

vs.

STOKES & SMITH COMPANY,

Respondent.

PETITION FOR WRIT OF CERTIORARI AND BRIEF IN SUPPORT THEREOF

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TEXT BOOKS CITED

Gordon's "Modern Annotated Forms of Agreement" (1945), p. 737, par. 3; also 1932 Edition, p. 674 20

Zabel, "The Patent Royalty Contract" (1933), p. 184, par. 8 20

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vs.

STOKES & SMITH COMPANY,

Respondent.

PETITION FOR WRIT OF CERTIORARI

TO THE HONORABLE, THE CHIEF JUSTICE AND ASSOCIATE JUSTICES OF THE SUPREME COURT OF THE UNITED STATES:

Your petitioner, Transparent-Wrap Machine Corporation, prays that a writ of certiorari issue to the United States Circuit Court of Appeals for the Second Circuit to review the judgment of that court in this cause filed on May 1, 1946 (R. 312). A petition for rehearing (R. 325) was denied on May 22, 1946 (R. 330).

A certified transcript of the record in this case, including the proceedings in the Circuit Court of Appeals, is furnished herewith in compliance with Rule 38 of the Rules of this Court.

Summary Statement of the Matter Involved

This action arose as an action filed by respondent for declaratory judgment to determine the legality and enforceability of certain provisions of a contract (R. 2).

The jurisdiction of the Federal Court is based on diversity of citizenship. Petitioner joined issue and asserted a counterclam for affirmative relief against respondent by reason of respondent's breach of those same provisions (R. 6 et seq.). Respondent joined issue on the counterclaim setting up a defense of laches and estoppel (R. 13). The United States District Court for the Southern District of New York, after trial, entered judgment for petitioner, holding the contract provisions legal and enforceable and ordering respondent to comply with them. On appeal, the United States Circuit Court of Appeals for the Second Circuit with one judge dissenting, reversed the judgment of the District Court, held the disputed clause to be illegal and unenforceable and the entire contract consequently not further binding on either party and remanded the case for proceedings in accordance with its opinion.

Petitioner, Transparent-Wrap Machine Corporation, is a New York Corporation, with offices at 313-321 Hudson Street, New York, New York. Respondent, Stokes & Smith Company, is a Pennsylvania Corporation, having its principal place of business at 4900 Summerdale Avenue, Philadelphia, Pennsylvania.

In 1934, petitioner was organized to manufacture and sell a patented automatic machine; the machine made transparent packages and simultaneously filled them and sealed them, so that as the packages left the machine they were complete with contents, and the contents were readily visible. This machine was sold under the trademark "Transwrap" and embodied the inventions of one Walter R. Zimoyer, who became an officer and employee of petitioner. The sales were both in this country and abroad.

Respondent, Stokes & Smith Company, had for some time been an established manufacturer of wrapping and filling machinery, but was making no machines for auto-

matically making packages and, of course, no machine of the "Transwrap" type. Some of the respondent's filling machines, especially those adapted to fill packages with powders could, however, be advantageously used in conjunction with the "Transwrap" machine. Respondent sought to add the "Transwrap" machine to its line of machines and this culminated in the agreement of June 23, 1937 between petitioner and respondent which is here in issue.

By this agreement (R. 90), petitioner sold its entire business (including tools, fixtures, completed "Transwrap" machines, parts therefor and orders on hand) in the United States, Canada and Mexico to respondent together with authority to use the trademark "Transwrap" associated therewith (R. 46), and a license (R. 90) under petitioner's United States and Canadian patents* giving respondent the exclusive right to manufacture and sell the inventions for a period of 10 years with an option (R. 95) to renew this license for successive 5 year periods to the end of the term of the patents unless the agreement was sooner terminated. The agreement was entered into at the solicitation of respondent and on its representation that it had superior facilities for promoting the business, including facilities for devising and developing improvements to the "Transwrap" machine (R. 273, 278). The business was to be operated for their joint benefit and the agreement provided (R. 95) that respondent would use its best efforts to promote the business during the term thereof. Payment by respondent to petitioner was to depend on the respondent's sales of "Transwrap" machines and, unless fixed amounts per machine were from time to time agreed upon, net profits were to be equally divided (R. 92, 93, fol. 277). In the event of termination of the agreement, the entire business in the "Transwrap" machine was to return to pe-

* There were no Mexican patents.

titioner including such incidents of the business, as tools, fixtures, completed machines, parts, and orders on hand (R. 97, Pars. 8c and 8d) as well as the "Transwrap" trademark (R. 46).

The provision of the agreement which respondent challenges as illegal, and which petitioner charges was breached by respondent, is Clause 12* providing that all improvements in the machine made by respondent should be disclosed to petitioner so that petitioner might patent such of them as were patentable, both in the United States and in foreign countries. The clause did not include improvements relating to respondent's normal business in filling mechanisms, and further, the clause recognized that insofar as improvements which related to the Transwrap machine also had use in respondent's other business, respondent was to have full rights therein, both during and after the term of the agreement. Insofar as the improvements were applicable solely to "Transwrap" machines the agreement provided that, during the term thereof, respondent was also to have full rights just as it did under petitioner's original patents.

The Clause reads (R. 100):

> "12. If the Licensee shall discover or invent an improvement which is applicable to the Transwrap Packaging Machine and suitable for use in connection therewith and applicable to the making and closing of the package, but not to the filling nor to the contents of the package, it shall submit the same to the Licensor, which may, at its option, apply for Letters Patent covering the same. In the event of the failure of the Licensor so to apply for Letters Patent covering such additional improvements, inventions or patentable ideas, the Licensee may apply for the same. In the event that such additional Letters Patent are applied for and are granted to

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*Clause 11 was also challenged by respondent, but it was not passed upon by the Circuit Court of Appeals.

the Licensor, they shall be deemed covered by the terms of this License Agreement and may be used by the Licensee hereunder without any further consideration, license fee or royalty as above provided. In the event that any such additional improvements are patented by the Licensee for use in connection with Transwrap Packaging Machines (after the refusal or failure of the Licensor to apply for Patents thereon), the Licensor may, nevertheless, have the use but not the exclusive use of the same outside of the several territories covered by this License Agreement. The expenses of obtaining any such Patents shall be paid by the party applying therefor.

The Licensor agrees to apply for and pay the expenses of obtaining any renewals of said Patents owned or acquired by it. The Licensee shall have the full right to use and enjoy any of the said inventions in its other machines which do not compete with Transwrap Packaging Machines and to license others so to do, but in such case the Licensee shall re-imburse the Licensor for its cost in obtaining the Patents on said inventions on a basis to be agreed upon by the parties and if they fail to agree, the same shall be referred to arbitration as hereinafter provided."

The dispute arose out of the fact that in January of 1944, petitioner discovered that beginning within a few months after the execution of the agreement, respondent filed a number of patent applications on inventions relating to the "Transwrap" machine without disclosing the inventions to petitioner and giving petitioner an opportunity to prosecute patent applications in this country and abroad. Four such patents were cited to petitioner by the Patent Office in rejecting an application for patent on an improvement on the Transwrap machine which had been made by petitioner. Petitioner, thereupon, on January 22, 1944 notified respondent (R. 105) that failure to disclose these improvements constituted a breach of the agreement; and, inasmuch as the agreement provided a period of thirty days within which respondent might remedy its default, petitioner called upon respondent to

assign these four patents and all other* similar patents and inventions which should have been disclosed under the provisions of the agreement.

Respondent admitted its breach and offered to submit a complete list of the inventions and patents so that the necessary assignments could be made (Letter of Jan. 26th, 1944; R. 287).

However, considerably more than thirty days went by and as the assignments were not forthcoming, petitioner wrote (R. 107) that under the circumstances it believed the matter should be referred to arbitration in accordance with Paragraph 16 of the agreement; additionally, within a few days, petitioner notified respondent (R. 108) that it would consider the agreement terminated as of a day certain (May 10th, 1944) because of the failure of respondent to remedy the breach. Respondent replied, again admitting the breach and offering to make assignment of at least some of the inventions which it believed came within the restricted provisions of Clause 12 (Letter of May 2nd, 1944, R. 288). In explanation of its delay and of its renewed admission of the breach, it stated that it had consulted two additional counsel who had advised it that at least some of the inventions came within the meaning of the clause and that the patents thereon should be assigned.

There was no suggestion at any time, either in justification of respondent's failure to live up to its obligation or as a reason for refusing to remedy the default after notice, that it involved any hardship on respondent or that the obligation was considered by anyone to be either illegal or unenforceable.

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* Up to the time of the trial, fourteen such inventions became known to petitioner and are referred to in the pleadings and discussed in the evidence; during the trial, and subsequently, others came to petitioner's attention, but there is no evidence in the record concerning the details of these other inventions.

However, without making any actual effort to remedy the breach and without any notice to petitioner, respondent filed the present complaint, asking that Clauses 11 and 12 of the contract be declared illegal and unenforceable and also asking that petitioner be enjoined from terminating the agreement until after arbitration.* As stated earlier, petitioner joined issue and filed a counterclaim asking that the court order the inventions to be assigned and that the agreement be held terminated. Respondent joined issue setting up laches and estoppel; and the case went to trial.

The trial court held (R. 295) that paragraphs 11 and 12 of the contract were valid and enforceable; that paragraph 12 had been breached by respondent; that the contract had terminated May 10, 1944 by virtue of due notice given by petitioner; that the claimed patents should be transferred to petitioner and that respondent should disclose any additional inventions or patents coming within the restricted language of Clause 12.

In so holding the court found as fact that the parties were not and had not been in competition, that none of the provisions of the contract either singly or together tended to monopolize any line of business or substantially lessen competition and held that the doctrine of the *Carbice* case[1] and *Morton Salt*[2] case and *Ethyl Gasoline* case[3] did not apply. The Court after stating respondent's contention and the cases relied on summarized its view as follows (R. 298):

"All of these cases are obviously irrelevant to the plaintiff's claim. The licensee here enjoys the use of the patents for this contract provides for its manufacture and sale of the machine embodying all the im-

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*At the outset of the trial the Court held that respondent had waived its right to arbitrate.

[1] *Carbice Corp.* v. *Am. Patents Corp.*, 283 U. S. 27 (1931).
[2] *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488 (1942).
[3] *Ethyl Gasoline Corp.* v. *U. S.*, 309 U. S. 436 (1940).

provements. It enjoys the right to use them on any machine it makes as well as the Trans-Wrap machine. No limitation of commerce in it is insinuated—on the contrary any effort of the licensee less than its best to manufacture, market, promote sales and sell machines breaches the contract. The royalty may accommodate market conditions and costs and competition as well. The licensee continues to enjoy its use of the patents for improvements with extensions of the contract at its option. When the agreement terminates within its present time limit, licensor is in a secure position to continue the manufacture and sale of an up-to-date saleable machine embodying the improvements where, without his right to patented improvements, he would own an unsatisfactory machine and neither party could satisfy the trade. We are unable therefore to find anything any more objectionable in the defendant's ownership of a patent or patents, the manufacture under which is provided for in the contract than there would be in the plaintiff's ownership of it or them. The complaint is dismissed."

The Court of Appeals did not differ with the trial court on the essential facts, but held that as a matter of law Clause 12 was illegal and unenforceable under a novel doctrine believed by the court to be an extension of the doctrine of the *Ethyl Gasoline case, Carbice case* and other cases, the most recent of which are the *Mercoid*[1] *cases,* which hold that it constitutes a misuse of a patent to use it to secure a monopoly of a product or process not covered by the patent.

That this holding constituted an extension of the doctrine was recognized by both the majority and dissenting opinions. Judge Learned Hand for the majority stated (R. 318).

> "It is true that the defendant did not expressly exact as a condition upon its license under the Zwoyer patents that the plaintiff should buy anything of it;

[1] *Mercoid Corp.* v. *Mid-Continent Co.,* 320 U. S. 661 (1944); *Mercoid Corp.* v. *Honeywell Co.,* 320 U. S. 680 (1944).

not even parts of the Zwoyer machine. Indeed, it was going out of business and could not have supplied the plaintiff, if it had exacted any such promise."

Judge Swan, in dissenting said (R. 323):

"Recent Supreme Court cases upon which my brothers rely have established the principle that 'the owner of a patent may not employ it to secure a limited monopoly of an unpatented material used in applying the invention'. *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661, 664. The application of that principle to the case at bar requires an extension of the doctrine to very different facts and I can see no valid reasons for so extending it. In my opinion the judgment should be affirmed."

The holding of illegality by the majority was not based on the view that the patent owner was using his patent to accomplish anything which was in and of itself illegal but, on the contrary, on the view that under the *assumed* doctrine of the cited cases it became illegal to accomplish the otherwise legal results by means of an agreement including a patent license because of the assumption that patents are not subject to the same rules as other property. The Court held (R. 320):

"It is quite true that upon the sale of its business, had the defendant not included those [its] patents, it could have made it a condition that the plaintiff should assign to it any improvement inventions it might make, and in that way it would have secured the plaintiff as its customer for all such improvements. The owner of all property, by withholding it upon any other terms, may, if he can, force others to buy from him; land is the best example and every parcel of land is a monopoly. But it is precisely in this that a patent is not like other property; the patentee may not use it to force others to buy of him things outside its four corners. If the defendant gets the plaintiff's patents, it will have put itself in that position, in part at any rate, by virtue of the compulsion of its own patents."

In so holding the Court of Appeals not only extended the doctrine of the earlier Supreme Court cases but held directly contrary to the earlier rulings of the Seventh Circuit Court of Appeals in a precisely similar situation. This is made explicit by Judge Swan in his dissenting opinion (R. 323):

> "If the seller had no patent when he sold his business, a stipulation that patents thereafter taken out by the buyer in connection with the business should be assigned to the seller if the business was returned to him pursuant to the terms of the agreement, would in my opinion be valid—and my brother's argument does not suggest the contrary. The situation would seem to be analogous to requiring an employee to assign inventions made in the course of his employment. *Guth* v. *Minnesota Mining & Mfg. Co.*, 72 F. 2d 385 (C. C. A. 7), cert. den. 294 U. S. 711. Even if the seller of the business owned a patent under which the buyer received a license, a stipulation that any improvement patents should belong to the licensor would formerly have been sustained. See *Allbright-Nell Co.* v. *Stanley Hiller Co.*, 72 F. 2d 392 (C. C. A. 7)."

Further, having reached the view that respondent was entitled to repudiate one of the essential promises by means of which it secured the business and a license, the Court declined to hold, as we believe it should as a matter of law and simple justice have held, that the license was at an end and that the business should be restored to petitioner.

Jurisdiction

The jurisdiction of this Court is invoked under section 240 (a) of the Judicial Code as amended by the act of February 13, 1925, c. 229 (28 U. S. Code, Sec. 347).

The decree of the Circuit Court of Appeals for the Second Circuit, which petitioner seeks to have reviewed, was entered on May 1, 1946 (R. 324) and a petition for rehearing denied on May 22, 1946 (R. 330).

Questions Presented

1. Does an otherwise legal agreement for the sale of a business in the manufacture and sale of a patented machine, under which the business may revert to the vendor and under which buyer agrees to transfer to vendor improvement inventions which the buyer may make in the machine, contravene public policy as an improper exercise of the patent monopoly under the doctrine announced by this Court in *Mercoid Corporation* v. *Mid-Continent Co.*, 320 U. S. 661, and the decisions there cited, because as a part of the consideration the vendor grants the buyer an exclusive license to practice the inventions of vendor's patents in connection with the business?

2. Is an otherwise legal contract for the assignment of improvements of a patented machine rendered illegal because part of the consideration therefor is the grant of a license to make the patented machine?

3. Can a buyer who acquires a business in a patented machine under promise to use his best efforts in the common interest and to disclose and assign improvement inventions to the seller under agreement that the business will revert to the seller in the event of breach, repudiate his promise to disclose improvements on the ground that the promise is a condition on a patent license and thereafter retain the business and the license?

Reasons for Granting the Writ

1. The holding of the Second Circuit Court of Appeals is contrary to the decision of this Court in *Hartford-Empire Co.* v. *U. S.*, 323 U. S. 386, approving the inclusion in license agreements of a requirement that improvement inventions be assigned to a licensor by his licensee.

2. The holding of the Second Circuit Court of Appeals is squarely in conflict with the decision of the Circuit Court of Appeals of the Seventh Circuit in *Allbright-Nell Co.* v. *Stanley Hiller Co.*, 72 F. 2d 392, with respect to the enforceability of a provision in a patent license requiring licensee to transfer to licensor improvement inventions insofar as they relate to the patented machine.

3. The holding of the Second Circuit Court of Appeals is an innovation in the law which goes beyond and is contrary to the earlier decisions in this or any other court in holding that an otherwise legal obligation to assign improvement inventions becomes illegal when a patent license is part consideration therefor.

4. The holding of the Second Circuit Court of Appeals is of far reaching consequence and importance in that it upsets widely held property rights based on the obligations of a licensee to assign improvement inventions, the validity and enforceability of which obligations have not previously been subject to doubt and have for many years been generally regarded as valid and enforceable, and have, therefore, entered into widespread contracts as an essential element of the consideration flowing to a licensor.

WHEREFORE YOUR PETITIONER respectfully prays that a writ of certiorari be issued to the United States Circuit Court of Appeals for the Second Circuit to the end that this cause may be reviewed and determined by this court; that the judgment of the Court of Appeals for the Second Circuit be reversed and that of the District Court affirmed; and that petitioner be granted such other and further relief as may be proper.

TRANSPARENT-WRAP MACHINE CORPORATION

By R. MORTON ADAMS,
Counsel for Petitioner.

New York 17, N. Y.
June 17, 1946.

BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

Opinion of Courts Below

The opinion of the District Court for the Southern District of New York appears at page 295 of the Record and is reported in 68 USPQ 28. The opinion of the Circuit of Appeals for the Second Circuit (Circuit Judges Learned Hand and Frank, written by Judge Hand), appears at page 312 of the Record and is reported in 69 USPQ 278. The dissenting opinion of Judge Swan appears at page 322 of the record and appears at 69 USPQ 283.

Jurisdiction

The jurisdictional statement appears in the accompanying petition.

Statement of the Case

The essential facts of the case are stated in the accompanying petition and need not be related here.

Specification of Error

The Circuit Court of Appeals for the Second Circuit erred:

1. In construing the doctrine set forth by this Court in the *Mercoid cases* and cases there cited as having application to the facts of the case at bar, and in, therefore, holding Clause 12 of the contract illegal and unenforceable.

2. In failing to apply the rule applied by the 7th Circuit Court of Appeals in the *Allbright-Nell case* and consequently in not requiring respondent to comply with its obligations under Clause 12 of the contract.

3. In holding that the obligations of Clause 12 of the contract became illegal and unenforceable because part of the consideration for the contract was the grant of a patent license by petitioner to respondent.

4. In failing to hold that if Clause 12 was unenforceable, the license granted to respondent thereupon terminated.

5. In failing to hold that if Clause 12 of the contract was unenforceable, the business in the patented machine should thereupon revert to petitioner.

6. In reversing the judgment of the District Court and holding the respondent free from its obligations to assign improvement inventions.

Summary of Argument

The points of argument are the reasons relied on for the allowance of the writ printed at pages 11 and 12 of the petition.

ARGUMENT

POINT I

The holding of the Second Circuit Court of Appeals is contrary to the decision of this Court in *Hartford-Empire Co.* v. *U. S.*, 323 U. S. 386 approving the inclusion in license agreements of a requirement that improvement inventions be assigned to a licensor by his licensee.

The validity of a provision in a decree permitting the assignment of improvement inventions to a licensor was squarely presented to this Court in the *Hartford Empire* case and approved. The situation there was that an injunction had been granted by the lower court, restraining the patent owners, among other things, from adding to its pat-

ent licenses any of numerous specific conditions. Among these was a requirement that the licensee assign improvement inventions to the licensor. This restraint is set forth as subclause (e) of Paragraph 29 of the decree, and appears in this Court's opinion at 323 U. S. 423. The parties at first disputed but apparently finally agreed that such restraint would be appropriate if limited to the field that the defendants had previously monopolized in violation of the anti-trust laws, but this Court held that the defendants should have complete freedom to insert any of the license restrictions in patent licenses in other fields. The Court stated, page 424,

> "Paragraph 29 should be amended to permit any appellant, corporate or individual, to retain and refuse to license, to use and refuse to license, or to license with restrictions any patent hereafter applied for or acquired, except those applicable to feeders, formers, stackers, and lehrs, and processes and methods applicable thereto."

The decision of the Court of Appeals is contrary to this explicit holding.

POINT II

The holding of the Second Circuit Court of Appeals is squarely in conflict with the decision of the Circuit Court of Appeals of the 7th Circuit in *Allbright-Nell Co.* v. *Stanley Hiller Co.*, 72 F. 2d 392 with respect to the enforceability of a provision in a patent license requiring licensee to transfer to licensor improvement inventions insofar as they relate to the patented machine.

The *Allbright-Nell* case was essentially on all fours with the present case—both as to the nature of the business transaction and as to the obligation to assign improvement inventions which the Court was asked to enforce.

In that case, as here, the patent owner had turned over its entire business in the patented machine to the licensee,

turning over among other things the patterns, dies, drawings, blueprints, and other data. Also, as in the present case, an official of the seller aided the buyer in getting the machine ready for the market. Also, as here, the seller granted to the buyer an exclusive right to manufacture and sell the patented machine for a period of 10 years, which happens to be the same period as involved in the present case. Also, as in the present case, the parties agreed that the buyer would assign improvements to the seller. The clause in the *Allbright-Nell* case read as follows (p. 394),

> "All improvements and changes in designs, in the apparatus, machinery or equipments herein dealt with, whether patented or not, shall belong to the First Party [namely the seller]."

The issue was raised in the *Allbright-Nell* case because the buyer acquired ownership of an improvement patent by assignment from one of its employees and declined to assign it to the seller.

The Seventh Circuit Court of Appeals held,

> "Clearly under the terms of the contract appellee was entitled to the assignment of appellant's interest in this patent and the court properly ordered appellant to execute the assignment." 72 F. 2d 392, 394.

Although the majority opinion in the instant case ignores the decision in the *Allbright-Nell* case, its holding is squarely in conflict therewith. This is specifically recognized by the dissenting opinion of Judge Swan, who states (R. 323),

> "Even if the seller of the business owned a patent under which the buyer received a license, a stipulation that any improvement patents should belong to the licensor would formerly have been sustained. See *Allbright-Nell Co.* v. *Stanley Hiller Co.*, 72 F. 2d 392 C. C. A. 7.)"

The conflict is not only clear but explicit.

POINT III

The holding of the Second Circuit Court of Appeals is an innovation in the law which goes beyond and is contrary to the earlier decisions in this or any other court in holding that an otherwise legal obligation to assign improvement inventions becomes illegal when a patent license is part consideration therefor.

The court below has, as a premise for its decision, announced a new doctrine of contract law which finds no counterpart in any prior adjudication in this or any other court. It is that a promise based upon a patent right as consideration stands in a wholly different legal position than the identical promise based upon money or other property rights as consideration. Thus, a promise to assign future inventions in consideration of a conveyance of a piece of real estate is held by the court below to be legal but the same promise in consideration of a conveyance of a patent right is held by the court below to be illegal.

In seeking to justify such conclusion, the court below relies upon the doctrine announced in the *Mercoid case*, 320 U. S. 661 and the cases there cited, but an analysis of the *Mercoid* decision and of the decisions there referred to shows that the conclusion below was not warranted by anything decided in these cases.

The public policy on which these decisions are based is that the patent cannot be expanded into a justification for acts that in themselves are illegal. This has been repeatedly expressed by this Court:

> "A patent affords no immunity for a monopoly not fairly or plainly with the grant. • • • Beyond the limited monopoly which is granted, the arrangements by which the patent is utilized are subject to the general law." *U. S.* v. *Masonite*, 316 U. S. 265, 277 (1942).

> "But the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited

monopoly not granted by the Patent Office and which it is contrary to public policy to grant." *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, 492 (1942).

"When the patentee ties something else to his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limitations upon that right which the general law imposes upon such contracts. The contract is not saved by anything in the patent laws because it relates to the invention." *Mercoid Corp.* v. *Mid-Continent*, 320 U. S. 661, 666 (1944).

"But those cases [*Morton Salt case*, 314 U. S. 488 and *B. B. Chemical case*, 314 U. S. 495] merely apply the doctrine that, so long as the patent owner is using his patent in violation of the antitrust laws, he cannot restrain infringement of it by others." *Hartford-Empire Co.* v. *U. S.*, 323 U. S. 386, 415 (1944).

"Relief is denied because the Dry Ice Corporation is attempting, without sanction of law, to employ the patent to secure a limited monopoly of unpatented material used in applying the invention. The present attempt is analogous to the use of a patent as an instrument for restraining commerce which was condemned, under the Sherman Anti-Trust Law, in *Standard Sanitary Mfg. Co.* v. *United States*, 226 U. S. 20." *Carbice Corp.* v. *Am. Patents Corp.*, 283 U. S. 27, 33 (1931).

"That the patent did not confer upon The Barber Company the right to be free from competition in supplying unpatented material to be used in practicing the invention was settled by the rule declared in the *Carbice* case." *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458, 461 (1938).

In each of these cases the illegal monopoly which the patent owner sought to create was not only outside his patent but was in and of itself contrary to existing law and public policy:

in the *Carbice case* the patent owner attempted to secure a monopoly in unpatented dry ice;

in the *Leitch case*, the patent owner attempted to secure a monopoly of unpatented bituminous emulsion;

in the *Morton Salt case*, the patent owner attempted to secure a monopoly of unpatented salt tablets;

in the *B. B. Chemical case*, the patent owner attempted to secure a monopoly in unpatented shoe fabric;

in the *Masonite case*, the patent owner attempted to create a price-fixing combination which is illegal under the Sherman Act;

in the *Mercoid case*, the patent owner attempted to secure a monopoly in unpatented thermostats.

In each case when it was attempted to use a patent to secure an illegal monopoly this Court held the patent was subject to the general law and could not be used in this way any more than other property.

Contrary to this doctrine, the Court of Appeals in the instant case has, established the rule that patent property is not subject to the general rules and that an act otherwise legal becomes illegal merely because it is an incident to a patent agreement. The Court said (R. 320):

> "It is quite true that upon the sale of its business, *had the defendant not included those patents*, it could have made it a condition that the plaintiff should assign to it any improvement inventions it might make, and in that way it would have secured the plaintiff as its customer for all such improvements. The owner of all property, by withholding it upon any other terms, may, if he can, force others to buy from him; land is the best example and every parcel of land is a monopoly. But it is precisely in this that a patent is not like other property; the patentee may not use it to force others to buy of him things outside its four corners. If the defendant gets the plaintiff's patents, it will have put itself in that position, in part at any rate, by virtue of the compulsion of its own patents." (Emphasis added.)

The Court of Appeals itself recognized that this holding goes beyond the decisions in the cited cases of this Court. The majority opinion states (R. 318),

> "It is true that the defendant did not expressly exact as a condition upon its license under the Zwoyer pat-

ents that the plaintiff should buy anything of it; not even parts of the Zwoyer machine. Indeed, it was going out of business and could not have supplied the plaintiff, if it had exacted any such promise."

The dissenting opinion states (R. 323),

"Recent Supreme Court cases upon which my brothers rely have established the principle that 'the owner of a patent may not employ it to secure a limited monopoly of an unpatented material used in applying the invention.' *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661, 664. The application of that principle to the case at bar requires an extension of the doctrine to very different facts and I can see no valid reasons for so extending it. In my opinion the judgment should be affirmed."

That the holding of the court is an innovation in the law seems clear.

POINT IV

The holding of the Second Circuit Court of Appeals is of far reaching consequence and importance in that it upsets widely held property rights based on the obligations of a licensee to assign improvement inventions, the validity and enforceability of which obligations have not previously been subject to doubt and have for many years been generally regarded as valid and enforceable, and have, therefore, entered into widespread contracts as an essential element of the consideration flowing to a licensor.

The present decision is the first case holding unenforceable a clause whereby a licensee agrees to assign improvement inventions. Such a clause has for many years been generally accepted and regarded as valid and enforceable —so widely, in fact, that it has even been included in the form books.*

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* See Gordon's "Modern Annotated Forms of Agreement" (1945), p. 737, par. 3; also 1932 Edition, p. 674.
Zabel, "The Patent Royalty Contract" (1933), p. 184, par. 8.

As has been stated, such clause was held enforceable by the 7th Circuit Court of Appeals in the *Allbright-Nell* case. A corresponding obligation was not only enforced but was implied as a matter of equity by the 10th Circuit Court of Appeals in *Baker Oil Tools* v. *Burch*, 71 F. 2d 31 (C. C. A. 10, 1934). Corresponding obligations on the part of individual inventors to assign improvement inventions have been held valid and enforceable in a long line of Federal and State cases going as far back as 1852 and collected in *Guth* v. *Minnesota Mining & Mfg. Co.*, 72 F. 2d 385 (C. C. A. 7, 1934). The enforceability of such an obligation was assumed by this Court in *Sinclair* v. *Jenkins*, 289 U. S. 689 (1933) where this Court required one of the parties to furnish extensive and voluminous information in order to arrive at the value of the improvement inventions which it was charged with failing to transfer.

Not only does the Court of Appeals decision upset vested property rights by holding such an obligation unenforceable but also in failing to hold that under such circumstances the license ends and the transferred business reverts to the former owner.

CONCLUSION

Wherefore, the petitioner earnestly prays that the petition for writ of certiorari be granted, the cause reviewed, and the decree of the Circuit Court of Appeals for the Second Circuit reversed.

Respectfully submitted,

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